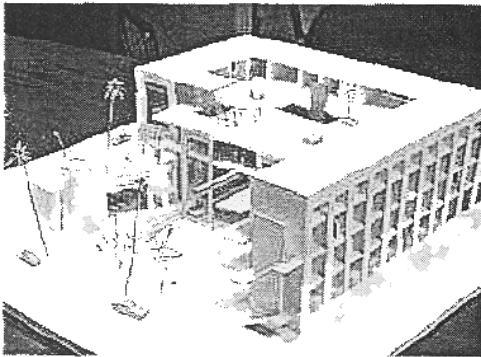


## ART EXCHANGE FEASIBILITY STUDY

**Submitted to:**  
The Long Beach Redevelopment Agency  
&  
The Art Exchange Task Force



The Art Exchange



Proposed Site



Community Meeting



East Village

**6/7/2004**

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## **1. Executive Summary**

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### ***Introduction***

Marie Jones Consulting (MJC), at the request of the Long Beach Redevelopment Agency, has prepared this market analysis and financial feasibility study for the proposed Art Exchange facility and supporting parking garage in the East Village of Long Beach. This report includes:

- An analysis of current market support for art studio space, arts education, galleries, and event venues
- Project schematics and development program
- Hard and soft cost estimates
- Financial feasibility analyses and project operating budgets for two projects.

This report also includes an extensive case study analysis of comparable arts facilities, operations recommendations, next steps, and recommendations for development on the remainder of the block. Finally, this report identifies sources of available public subsidy, grants, and financing to improve project feasibility.

Two alternatives were analyzed. Both the preferred alternative, a three-story 40,000 square foot facility, and the second alternative, a four-story 52,000 square foot facility, include:

- art studios
- a hot glass shop, an industrial arts workshop, and a ceramics studio
- an arts education program serving at least 1,000 students per year
- office space for the managing organization
- a 3,000 square foot atrium event venue, rooftop event patio, and outdoor courtyard
- and a parking garage.

### ***Economic Impact***

The Art Exchange would benefit the Long Beach community in four primary ways:

- As an economic development and visitor attraction
- A signature project connecting the East Village with the downtown
- Secured permanently affordable artist workspace
- A source of quality arts education for the community

Estimated economic development impacts include the creation or stabilization of 225 full-time-equivalent permanent jobs, \$7.2 million in local expenditures, \$4.8 million increase in household income, and \$300,000 in annual local tax revenues.

The proposed facility would also achieve Redevelopment Agency goals for the Central Redevelopment Project Area, in which the Arts District is conceptualized as a place where:

- Artists live and work;
- Arts related activities and events occur on a regular basis; and
- Tourists and visitors shop, dine, and are entertained in an environment that celebrates cultural diversity and artistic expression.

## **Market Analysis**

### **Artist Studio Market**

Overall, the Los Angeles market for accessible quality art studio spaces is strong. The market will support rent of \$1.25 per square foot per month for full-service space in a downtown location.

- Currently Long Beach artists pay \$0.77 per square foot for work-only studio space. Forty-nine percent of surveyed artists would consider paying an average of \$0.90/SF for space in the Art Exchange.
- The typical Los Angeles artist actively seeking space is offering \$1.50/SF for a 350 square foot work studio.
- Long Beach art studios are currently on the market for \$0.87/SF per month triple-net, while studio space in other areas of Los Angeles ranges from \$0.92 to \$1.86/SF. Smaller art studios of 200 to 500 square feet, such as those envisioned for the Art Exchange, rent for \$1.48/SF per month in the Los Angeles area.
- Comparable art centers around the country rent studio space for between \$1 and \$1.25 per square foot per month have zero vacancy, very low turnover, and a waiting list of one to ten years.

### **Event Market**

The event and meeting market in Long Beach is good. The Art Exchange will primarily attract local weddings, social events, and some business events of 200-to 250 people who want an interesting event venue. Once established, the facility should attract from five to seven events per month at a rental rate of \$2,500 to \$3,000 per event.

- Eight interviewed event planners indicated that the Art Exchange would be attractive for weddings, business parties, and social parties. Event planners felt that the space would rent well for between \$2,500 and \$3,000 per event, with most events occurring on Friday and Saturday nights and Sunday day.
- Downtown Long Beach hotels charge between \$2,000 and \$3,000 per event for comparable space. Hotel occupancy rates of comparable event space range from 50 to 60 percent with an average of 55 percent. Nontraditional event venues charge slightly more (\$4,000) for a slightly larger space (3,400 square feet). However, occupancy ranges from ten to 100 percent depending on the venue's desirability.

### **Art Education Market**

The Long Beach community has sufficient demand for the Art Exchange to offer at least 100 art courses per year, serving roughly 1,500 students and generating approximately \$450,000 in gross revenue.

### **Gallery Market**

The East Village has a number of low-performing art galleries, and at least initially, this gallery is unlikely to generate more than a modest \$40 per square foot in total sales per year. In comparable art facilities, galleries do not generate significant income, though they play an important role in attracting visitors.

### ***Development Program***

MJC modified StudioOneEleven conceptual plans to reflect the market analysis and defined a development program for two distinct Art Exchange facility configurations: a three-story 40,000 square foot facility, and a four-story 52,000 square foot facility.

- The three-story development program contains 45 artist studios, three fine art classrooms, an art gallery, a hot glass shop, an industrial workshop, a ceramics studio, an event venue and re-heat kitchen, four administrative offices, three pair of bathrooms, freight and public elevators, storage areas, and a loading dock. With an administrative use permit this facility would require roughly 126 parking spaces and without such a permit it would require 200 spaces.
- The four-story development program encompasses 66 artist studios, six fine arts classrooms, an art gallery, a hot glass shop, an industrial workshop, a ceramics studio, an event venue and re-heat kitchen, five administrative offices, four pair of bathrooms, freight and public elevators, storage areas, and a loading dock. This facility would ideally require 205 parking spaces (with an administrative use permit) but may require as many as 279 spaces.

### ***Development Cost***

Total development cost for the Art Exchange, including site acquisition, hard construction costs, soft costs and healthy contingencies amount to \$11.4 million for the large facility and \$9.8 million for the smaller facility. The parking garage adds an additional \$4.6 million in cost to that larger facility and \$3.2 million to the smaller facility.

### ***Feasibility***

Based upon MJC research and analysis set forth in this study there is satisfactory market support for both Art Exchange development scenarios. Based upon standard assumptions, the project development proformas demonstrate that the Art Exchange facility is financially feasible with financing through tax-exempt bonds from the State of California's State Infrastructure Development Bank. These low-interest nonprofit bonds are available to any Californian nonprofit and have been widely used to finance an array of facilities. To obtain financing through the state bonding mechanism, the new nonprofit operating entity (the Art Exchange) would require a loan guarantee from the City of Long Beach or other entity. The bond would be paid back by income generated from studio rentals, events, and parking fees. The total bond amount that would be supported by rents is \$11 million for the large project and \$8.7 million for the smaller alternative.<sup>1</sup> The smaller project will require a \$4.3 million capital campaign while the larger project will require a \$5 million capital campaign. Based on this financing and funding scenario, the project would operate in the black with a growing surplus over time.

Additionally, as the parking facility of the project would be shared between the Art Exchange and developer(s) of the remainder of the block, the developer(s) could contribute half the development cost of the parking garage to the Art Exchange as an equity donation. This would allow the Art Exchange to take advantage of its favorable financing for garage construction and would reduce the total amount of the Art

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<sup>1</sup> The bonding scenario includes a 2 percent below-prime fixed-rate thirty-year bond for the non-profit occupied portion of the facility (40%) and a 6 percent thirty-year fixed-rate commercial bond for the artist occupied portion (60%) of the building.

Exchange capital campaign by \$1.5 million for the small facility and \$2.3 million for the larger facility.

Alternatively, if the project is financed with a conventional mortgage at 7 percent with a twenty-year term, project income will support much less debt. Consequently, the large alternative would require an \$11 million capital campaign, while the smaller alternative would require a \$7.6 million capital campaign. Such significant capital campaigns would present a challenge to the project.

### ***Shared Parking & Development of the Remainder of the Block***

Development of the entire block of the proposed location for the Art Exchange offers a unique opportunity to revision and improve the urban fabric of the East Village. Development on the remainder of the block should:

- Activate Broadway Street between Elm and Long Beach Boulevard with interesting complementary retail and restaurant venues to improve pedestrian-friendly connections between the East Village and Pine Avenue.
- Include retail uses that encourage and support arts and arts activities. The existing camera shop and bookstore already achieve this end.
- Give preference to live-work lofts that serve artists and other “creatives,” as they are a strong complementary use. Currently, Long Beach has relatively few urban loft developments, though demand for this type of space has grown steadily among young and middle-aged single urban professionals and artists.
- Mixed-use activities should complete the remainder of the block, specifically, combinations of first-floor retail with housing and/or office above.

The envisioned parking structure, located in the center of the block, could serve the Art Exchange, live-work, and mixed-use developments on the block, as these uses will largely occupy the parking structure during non-competitive time periods.

Developers of the remainder of the block should support the concept of shared parking on the site as it will significantly reduce their overall development costs. Indeed, developers of the remainder of the block should contribute at least half of the development cost for the parking structure as well as half of the ongoing operating costs.

The developer(s) could contribute half the development cost of the parking garage to the Art Exchange as an equity donation. This would allow the Art Exchange to take advantage of favorable financing for the parking garage and would reduce the amount of the Art Exchange capital campaign by \$1.5 million for the small facility and \$2.3 million for the larger facility.

### ***Operation Recommendations***

MJC interviewed executive directors of comparable art centers to collect recommendations and lessons learned from similar facilities. Among the more salient points:

- The Art Exchange should own, manage, and operate all programs and the building under one nonprofit organization to ensure affordable rents and a quality arts

education program. However, as a nonprofit, the center should be managed like a business to create profit for reinvestment in the organization. Specifically, the center should be managed by professional staff to ensure business growth and quality programming. A diverse board of directors should include representatives from city government, the Redevelopment Agency, the real estate/development industry, the East Village Association, the chamber of commerce, and the Long Beach arts and education communities.

- Art Exchange staff should work collaboratively with neighborhood residents, merchants, and city government to ensure that the center realizes and publicizes its benefits to the East Village and the City of Long Beach.
- Tenant artists should be selected through a professional juried process, and selected artists should be re-juried on a three-year cycle to make certain that studios are actively used. The Art Exchange should set a minimum number of hours per year for each studio to be actively in use. Active use is essential to increased tourist traffic and to the fulfillment of the project's economic development benefits.
- The Art Exchange should offer quality, accessible, hands-on art classes that serve the Long Beach market. All art instructors should have teaching experience.

### ***Next Steps***

Key next steps include:

- Form or select an existing 501(c)(3) to own and operate the building. Recruit a diverse board of directors to assist with the development and management of the building. For the development phase, the board should specifically include experts in development, financing, and facilities management.
- Seek initial equity and gain site control, for without site control few philanthropists or foundations will contribute to the capital campaign.
- Pursue additional funding to support further predevelopment activities, such as a capital campaign feasibility study and project staffing.
- Obtain necessary entitlements (zoning variances, permits, etc.).
- Initiate the capital campaign.
- Undertake design and engineering activities.
- Obtain project financing and a loan guarantee.
- Undertake construction of the facility.
- Occupy the building and initiate facility programs.

### ***Potential Sources of Funding***

Many potential funding sources are available to help bridge the financial feasibility gap for the Art Exchange. Examples of sources identified through research for this report include:

#### **State Programs**

- The State Infrastructure Bank originates state-sponsored bond financing for nonprofit organizations, typically at 2 percent below prime for a fifteen- to thirty-year term. Bonds can finance 20 to 100 percent of project costs of more than \$2,000,000. There is no upper limit on the bond amount.

#### **Local Programs**

- Redevelopment Tax Increment: Redevelopment Agency tax increment collection powers can be used to issue bonds or provide a bond guarantee.
- Local Initiatives Support Corporation (LISC) provides debt financing and loan guarantees to nonprofit facilities.

#### **Foundations**

- The Kresge Foundation provides grants of \$150,000 to \$2 million for art facility projects.
- The Ford Foundation provides grants of \$100,000 to \$500,000 for art-related capital projects.

### ***Conclusion***

Development of the Art Exchange offers a unique opportunity to stimulate economic activity in the East Village and improve connections between the East Village and downtown Long Beach. To the extent that the Art Exchange attracts daily visitors, it will also benefit revitalization of the surrounding blocks within the East Village.

Current market conditions are good for this facility at the proposed location. Creative use of tax increment financing, low-interest bonds and other forms of financing will help to ensure a financially self-supporting facility.

The Art Exchange offers a unique opportunity to create a focal point for Long Beach's cultural and artistic strengths. As a catalyst economic development project for the East Village, the Art Exchange would fulfill many City goals for the East Village.